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Inter-Korean Economic Cooperation

¶1. (U) Slow Growth in Inter-Korean Trade Masks Big Changes in Composition: The Ministry of Unification (MOU) announced that inter-Korean trade in 2008 grew just 1.2 percent to USD 1.82 billion (following growth rates of 27.8 percent in 2006 and 33.2 percent in 2007). South Korea's exports to the DPRK fell by 14 percent to USD 888 million, while imports rose 22 percent to USD 932 million. The MOU attributes the slow growth to the appreciation of the U.S. dollar (implicitly pointing to North Korea's hard currency

shortage). A closer look at the figures (see table) shows that some categories of trade grew sharply while others fell dramatically. Trade involving the Kaesong Industrial Complex (KIC) rose by 84 percent and now comprises 44 percent of total inter-Korean trade. This tracks with the significant increase in the number of factories in KIC in 2007 and early 2008. Processing-on-commission (POC) trade between the two Koreas rose 24 percent to USD 408 million, accounting for 22 percent of the total inter-Korean trade. On the other hand, the political chill between the two Koreas nearly eliminated ROKG humanitarian aid, and reduced ROK NGO transactions by 73 percent (partly through reduced ROKG funding). Also, revenues from the Mt. Kumgang tourism project declined by 45 percent because operations there were suspended in July after the shooting of a ROK tourist who strayed off the compound. South Korea's major imports from North Korea include textiles, minerals, and agricultural and fishery products. Major South Korea exports consist of textiles, machinery and steel products (primarily for KIC operations).

Inter-Korean Trade by Type in 2008

(Unit: USD 1,000)

Commercial Transactions

	South Exports To North	South Imports from North	Total
General Trading	32,985(64)	366,446(-17)	399,431(-13.4)
Processing-on Commission (POC)	150,962(20)	257,345(26)	408,307(24)

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KIC Project 518,342(53) 290,103(187) 808,445(84)

Mt. Kumgang
Tourism Project 52,207(-47) 11,506(-27) 63,713(-45)

Other Economic
Projects 14,329(35) 5,583(331) 19,912(67)

Light Industry
Cooperation 10,845(-85) 1,215(-2) 12,060(-83)

Subtotal 779,670(40) 932,198(498) 1,711,868(20)

Non-Commercial Transactions

	South Exports To North	South Imports from North	Total
NGO Aid	66,687(-73)	0	66,687(-73)
Government Aid	373(-99.5)	0	373(-99.5)

Social, Cultural
Projects 1,193(37) 54(35) 1,247(34)

Energy Aid
(HFO) 40,194(9) 0(0) 40,194(9)

Subtotal 108,447(-70) 54(8) 108,501(-70)

TOTAL 888,117(-14) 932,252(22) 1,820,369(1.2)

(1)Source: Korea International Trade Association and
Ministry of Unification

(2)Note: Figures in parenthesis indicate the comparison from 2007.

¶2. (U) Pyongyang Hemp to Start Operation in March Pending Wage Agreement: Radio Free Asia reported in January that Pyongyang Hemp, a joint-venture between South Korea's Andong Daema Spinning and North Korea's Saetbyeol General Company, plans to start its Pyongyang operation in March. Construction of the factory was completed on October 30, 2008. The company is currently negotiating

with its North Korean partner on wage rates; the North Korean partner is reportedly demanding USD 120 per month for North Korean workers (Note: The DPRK receives USD 75 per worker at KIC). A total of 250 North Korean workers are already employed by the company; once it is in full operation in March, the number of North Korean workers is expected to rise to 750. Pyongyang Hemp will also be involved in logistics in North Korea, operating 40 trucks (twenty 11.5 ton trucks and twenty 8.5 ton trucks). The trucks will run between Sinuiju-Pyongyang and Nampo-Pyongyang to transport raw materials sent from South Korea for processing-on-commission trade. Approximately 100 factories in Pyongyang are currently involved in processing on commission trade for ROK firms.

Domestic Economy

¶13. (U) DPRK Re-establishing Economic Development Planning Process: Chosun Sinbo, a pro-North Korea newspaper based in Japan, reported January 5 that North Korea has been making efforts to activate the economy by establishing annual economic development plans since last year with the aim of building a "Strong and Prosperous Nation" by 2012. While the North Korean government has not made any official announcement of the plan, the newspaper hinted that the DPRK has effectively re-instituted the 5-year economic planning process.

¶14. (U) DPRK Cracks Down on Markets to Stem Imports: South Korea's Chosun Ilbo recently reported that North Korean leader Kim Jong-il ordered a crackdown on street markets in a move to reassert control over the economy amid an influx of foreign goods into North Korea. DPRK authorities have ordered that all manufactured goods and imported items be sold at state-run shops rather than markets from January this year. While street markets have been allowed in North Korea in recent years, North Korean officials are reportedly concerned about the infiltration of movies and music CDs from Western countries and South Korea. The newspaper reported that an unnamed Ministry of Unification official said that he had heard

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about the crackdown but could not confirm the details. Park Hyeong-joong, a senior research fellow at the Korea Institute of National Unification said, "The growth of markets poses a threat to the North Korean regime. However, a complete crackdown would be impossible to enforce because North Koreans rely on the markets to make a living."

¶15. (U) DPRK Upgrading Thermal Power Plants to Increase Electricity Output: North Korea's Central News Agency (KCNA) reported January 13 that the DPRK plans to upgrade thermal power plants to increase electricity. Kim Man-soo, North Korea's Electricity and Industry Vice Minister was quoted by KCNA as saying that the country will "modernize operations of major thermal power plants such as Bukchang and Pyongyang Thermal Power Plants in the North to increase electricity output."

¶16. (U) Foreign Exchange Rates Fluctuate in DPRK: 'Open DPRK Communications,' a South Korea-based online news service focused on North Korea, on January 12 reported that the U.S. dollar and the Chinese yuan greatly appreciated against the DPRK won late last year. The newsletter cited Chinese-DPRK traders as saying that the recent depreciation of the North Korean won against the US dollar and the Chinese yuan was in part caused by a temporary crackdown by China on border trade with North Korea. Some observers suggest the crackdown was in retaliation for the North's reported official complaint about the (alleged) inferiority of Chinese imports. Another factor cited as fueling the depreciation of the DPRK won is North Korea's recent pressure on market activities. The report said the rates reached 3,630 DPRK won per U.S. dollar in December. For reference, the rate was 200 DPRK won per U.S. dollar in July 2002.

Foreign Aid

¶17. (U) WFP Cites Lack of Resources in Partial Suspension of DPRK Food Distribution: Paul Risley, a WFP spokesperson, said in an

interview with Voice of America on January 13 that the WFP has suspended food distribution in most of areas in North Korea due to lack of food and operational funds. Food is only distributed to infants and pregnant women in limited areas in the North. WFP aimed to raise around USD 530 million for its emergency food aid program through November 2009, but as of January 7, only USD 19.3 million was raised, just 3.8 percent of the targeted amount.

¶18. (U) DPRK Strengthens Avian Influenza Prevention in Cooperation with International Organizations: Radio Free Asia reported January 13 that North Korean authorities are making efforts to strengthen avian influenza (AI) preventive measures in a close cooperation with the Food and Agriculture Organization (FAO) and World Health Organization. Morgaria Subhash, an FAO AI expert said, "At the moment, we work with North Korean government to help them to build the physical capacity to make diagnoses and get equipment. Now the DPRK government is working to get equipment sent by FAO. The DPRK is also being trained to be able to investigate and respond to any AI outbreak very rapidly." Vis Smitha, a WHO officer, said that there has been no AI outbreak in the North so far, and that DPRK authorities have been following the relevant WHO guidelines. In addition, the DPRK sent a high-level delegation to an AI-related international symposium held in Egypt in November 2008 to prepare for any possible AI outbreak.

¶19. (U) Methodist Groups Send Food and Other Aid to North Korea: Radio Free Asia reported January 15 that the British Methodist Church Foundation plans to donate USD 6,600 to help North Korea. The donation will be used to refurbish and operate a ramyeon (instant noodle) factory, a bakery and a green house in the North. Meanwhile, the Korean Methodist Church will send 6,000 sets of warm underwear to North Korea by sea.

¶10. (U) UNICEF Provides New Vaccine Storage Equipment to DPRK: UNICEF plans to replace refrigeration facilities for vaccines in North Korea this year, Kamrul Islam, chief of UNICEF's Health and Nutrition office in North Korea said in an interview with Voice of America on January 22. UNICEF also plans to train North Korean technicians. UNICEF conducted a site survey in 203 counties in the North in 2008. The ten-year project includes cooperation with the Global Alliance for Vaccines and Immunization (GAVI) to strengthen disease prevention in the North. In addition, UNICEF in January began nationwide surveys on North Korea's health and hygiene

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situation. UNICEF's Pyongyang Representative, Gopalan Balagopal, said, "Based on the findings, we are intending to strengthen the program this year."

¶11. (U) ROK Provincial Government to Build Pig Farm in DPRK: Jeju Provincial Government announced on January 16 that it plans to send 220 million won (USD 159,190) of equipment to build a pig farm in North Korea. The equipment consists of pens, feeders, heat lamps and ventilators. Once construction of the pig farm is completed in May this year, the provincial government will send 100 black pigs -- traditionally considered to be especially nutritious -- for breeding stock. The Provincial government expects the pig farm will help feed children and elderly North Koreans. The Jeju Provincial government set up this project with North Korea when a group of Jeju citizens and officials visited Pyongyang in 2007.

Foreign Trade and Investment

¶12. (U) DPRK Restricts International Communications for Trading Companies: Radio Free Asia in January reported a Chinese source doing business in North Korea as saying that the DPRK has restricted international communications for major North Korean trading firms. Communications with North Korean counterparts have become more difficult because they are now required to go through a center established by the DPRK with the express purpose of monitoring communications. Previously, incoming international communications could be routed directly to major North Korean trading firms which used internal telephone/fax lines. Some firms such as Pyeonghwa Motors, a South Korean joint-venture automaker, are reportedly still

allowed to use direct international communications channels. Meanwhile, according to the January newsletter of Good Friends, a South Korea-based civic group helping North Korea, some North Korean government officials have recently been prohibited from using the mobile phone service launched in Pyongyang on December 15 by Orascom, an Egyptian telecommunication firm.

¶13. (U) DPRK Sets Up Consular Office in Dandong to Expand Trade with China: Chosun Ilbo in January cited reporting that North Korea recently established a consular office in Dandong, a Chinese border city just across from Sinuiju. The small consular office is intended to expand trade with China and to control North Koreans' activities along the Chinese border. Dandong is regarded as the gateway of DPRK-China trade, with 70 percent of the goods shipments between the two countries occurring there. North Korean diplomats in the Dandong consular office will be charged with providing administrative support for trade between China and North Korea.

¶14. (U) DPRK Diplomats in Nepal Purchase Excessive Oil and Gas Duty Free: RFA cited Nepalese English Telegraph Weekly reporting indicating that North Korean diplomats in Nepal have been purchasing large volumes of oil and petroleum duty free. They have been purchasing 12,000 liters of diesel and 12,000 liters of gasoline duty free every month. The weekly questioned how the North Korean Embassy in Nepal was able to consume that much fuel when it has only four vehicles registered with Nepalese authorities.

¶15. (U) DPRK Considerers Setting Up Free Trade Zone on Wihwa Islet near Chinese Border: The Japanese paper Yomiuri Shimbun reported January 20 that North Korea has been considering establishing a free trade zone on Wihwa Islet along the Yalu River near the Chinese border. The newspaper claimed that the North's plan was to secure food by expanding the border trade with China. The Wihwa islet, on a 15.5 square-kilometer site, belongs to the city of Sinuiju, which North Korea attempted and failed to develop into a special economic zone in 2002. According to sources, North Korea will allow Chinese citizens to visit the area without a visa to trade daily commodities and foods. China is reportedly considering building a new bridge in the area to connect with North Korea, since the existing China-DPRK Friendship Bridge is aging.

STEPHENNS